United Nations A/60/582/Add.1

General Assembly

Distr.: General
10 April 2006

Original: English

Sixtieth session
Agenda items 122 and 130

Review of the efficiency of the administrative and financial functioning of the United Nations

Joint Inspection Unit

A common payroll for United Nations system organizations

Note by the Secretary-General

The Secretary-General has the honour to transmit, for the consideration of the General Assembly, his comments and those of the United Nations System Chief Executives Board for Coordination on the report of the Joint Inspection Unit entitled "A common payroll for United Nations system organizations" (JIU/REP/2005/4).

06-30539 (E) 170406

Summary

In its report entitled "A common payroll for United Nations system organizations" (JIU/REP/2005/4) the Joint Inspection Unit notes that almost every organization of the system performs its own payroll processing function, with many organizations adapting commercial enterprise resource planning (ERP) software for this purpose. It postulates that by consolidating this function across organizations, the system as a whole can realize significant financial savings, estimated at $100 million over 10 years.

The recommendations contained in the report are intended as a starting point for the system in undertaking the process of moving towards a common ERP, with the first step being the consolidation of payroll activity.

Members of the United Nations System Chief Executives Board for Coordination believe that savings might indeed be possible through the consolidation of administrative systems, but that to achieve this it would be necessary to address an extensive range of issues that were not thoroughly explored within the report of the Joint Inspection Unit. In addition, the fact that the report does not provide adequate financial analysis has resulted in the lack of a clear business case for the adoption of a common application by organizations. One major obstacle to moving towards a common ERP stems from the fact that many organizations of the system have already invested heavily in the existing systems, and are unlikely to consider alternatives until these costs have been fully amortized. In addition, many organizations consider that a more difficult problem, and one whose resolution is a necessary precondition for any system consolidation, concerns the complicated manner in which human resources and payroll rules have evolved across the system.

While many organizations have misgivings about the analysis contained in the report of the Joint Inspection Unit, they generally support the overall recommendations, with the exception of part (a) of recommendation 1, which they feel is not justified on the basis of the analysis contained in the report.

I. Introduction

1. The report of the Joint Inspection Unit entitled "A common payroll for United Nations system organizations" raises the subject of system-wide collaboration on a significant administrative function, namely, payroll processing. The report asserts that the system can realize considerable savings and other benefits by moving to a common payroll function, especially as a first step towards uniting all organizations on a single management information system. The report in its recommendations focuses on the actions that the system as a whole should take in moving towards a common payroll, while indicating that any such movement must be undertaken carefully, and proposes that the General Assembly endorse the concept of a common payroll as well as the establishment of "leader" organizations, which would provide payroll and other technology services to other United Nations organizations.

II. General comments

2. This report touches on a subject of significant interest to all organizations of the system. With only a few exceptions, organizations recently introduced or have already begun introducing changes to the systems they employ for payroll processing, or they are considering the introduction of such changes. While the report notes that payroll is not a "mission-critical" function of any agency (meaning that it is not a core activity), the effective and efficient payment of staff represents a crucial activity for any organization. In general, the report received support from organizations of the system, and most expressed the belief that a single United Nations payroll function of some kind would provide benefits to the system as a whole. Therefore, almost all organizations of the United Nations system that participate in the common system appreciate the timely nature of the report and the efforts of the Joint Inspection Unit to highlight this important issue.

3. While the principle of a common payroll is generally acceptable, very few organizations were convinced by the underlying analysis provided within the report and very few felt that the report showed adequate understanding of the mechanics of implementing large enterprise resource planning (ERP) applications. For example, organizations point out that paragraph A of the executive summary gives the impression that organizations are spending millions of dollars to purchase software, when, in fact, the software costs represent only a small portion of the expenditures related to implementing these kinds of systems. The bulk of the costs go towards adapting the operational processes within an organization to the requirements of the software or, less commonly, towards adapting the software to the organization. Organizations note that whether or not they implement their own system, or "in-source" to another "leader" agency, these implementation activities must take place, and the costs associated with these activities must be considered. Therefore, in-sourcing usually will not result in any savings.

4. Many organizations have indicated that the report of the Joint Inspection Unit presents a simplistic image of the payroll environment and, in its analysis, does not clearly articulate how organizations can consolidate their payroll processing as proposed. Even though "representatives of major ERP system vendors" expressed confidence in the "feasibility of a common payroll", it is not clear from the report that any of these representatives fully understand the complete range of issues involved in implementing an ERP within the United Nations system, with its

complex personnel and payroll rules. One would expect a vendor representative to express confidence in the ability of its product to perform. In addition, while certainly disparate systems can "talk" to one another, communication is rarely the issue; far more relevant is the complexity of business processes, an issue not addressed in the report.

5. Many members of the United Nations System Chief Executives Board for Coordination noted that the report only tangentially and superficially recognizes the need to simplify and unify organizational administrative practices, including payroll, as a precondition for the development of a common ERP. They note that the major costs associated with the implementation of ERP systems are related to re-engineering of business processes, not (as noted above) to the actual software purchase. Performing this type of re-engineering activity within a single organization can be difficult, time-consuming, disruptive and expensive, and there is no guarantee of any improvement in business performance. Performing a similar activity system-wide introduces additional complexity, not addressed in the report. Furthermore, the ultimate objective of introducing ERP systems is to support an organization's core business, which can vary dramatically across organizations. Therefore, implementing a single ERP across organizations, each with a different operational mandate, may not achieve either improved operating efficiency or system savings. Since the report is silent on these issues, organizations of the system find it difficult to accept the report's underlying analysis.

6. Many members of the Chief Executives Board for Coordination questioned the feasibility of pursuing a common payroll capability when so many organizations have already invested considerably in new systems. They note that most of the larger organizations have either completed, or are close to completing, new payroll processing systems that integrate with existing management systems, and that the report does not adequately consider these sunken costs. With serious budget constraints at many organizations, most organizations would find it difficult to identify additional financial and human resources for participating in a common payroll effort any time soon. Furthermore, they point out that whatever the merits of a common payroll processing system, much of the savings envisaged in the report depends on a common development effort. Since many organizations have already invested in new software and procedures, these savings are unlikely to be realized.

7. Most organizations questioned the extent of any potential savings realized by a common payroll system, a central driver for the recommendations of the Joint Inspection Unit. They felt that the basis for claiming a savings of $100 million over 10 years appears weak and unrealistic, not to mention largely unsubstantiated. They point out that many organizations now have extensive experience implementing a large-scale system of this nature, and the one consistent lesson is that anticipated savings rarely live up to expectations.

8. Specifically, organizations point out that the Joint Inspection Unit analysis does not adequately describe its basis for calculating either current payroll operating costs, or anticipated costs for a unified payroll. Since neither commercial nor government human resources and payroll systems are similar to the system employed within the United Nations, these target amounts, as mentioned in the report, have dubious validity for the analysis, rendering the premise of a $100 million savings open to subjective interpretation. Organizations of the system indicate that this is only one area where the Joint Inspection Unit report is vague on

actual costs and may therefore have overstated the expected savings to the system. Furthermore, organizations note that the report indicates that these savings are "just the tip of the iceberg", implying, without justification or analysis, that greater savings would certainly accrue should the system adopt its position.

9. A common thread running through all comments from members of the Chief Executives Board for Coordination concerns the lack of specificity in addressing the many issues that will arise when trying to develop a common payroll. These include differing requirements, not just from a "rules" perspective, but also from an operational one. For example, some organizations see payroll in terms of a larger service offering, and would demand significant flexibility in its operation in order to retain functionality available in its legacy systems. These issues have not been addressed in the report.

10. In summary, very few organizations of the system feel that the Joint Inspection Unit has presented a sufficiently rigorous business case for moving towards a common payroll, and that the analysis presented fully supports the recommendations. This does not mean, however, that organizations do not believe the issue worth pursuing, as noted in the comments for specific recommendations.

III. Specific comments on recommendations

Recommendation 1

The General Assembly should:

(a) **Endorse the development of a common payroll system as the first step towards a common ERP for the United Nations system as a whole;**

(b) **Request the Secretary-General, in his capacity as Chairman of the United Nations System Chief Executives Board for Coordination: to seek the highest-level commitment from the United Nations system organizations, by setting up a governance structure, which should speed up, coordinate and oversee the development and implementation of a common payroll system through the implementation of a phased approach and within the context of a common ERP system; and to report back to the Assembly on the implementation status of this recommendation at its sixty-second session.**

11. Most members of the Chief Executives Board for Coordination are of the view that moving to a common ERP is not the core issue when addressing whether or not to move to a common payroll. Most organizations, while supportive of further study on the issue of a common payroll, do not endorse the work as a first step towards a common ERP. These organizations feel that it is premature for the General Assembly to endorse this recommendation without a clear, detailed, comprehensive analysis of the costs and benefits that would result in a compelling business case. In their comments, these organizations strongly express their view that the Joint Inspection Unit has not presented a compelling case for a common ERP, as either a cost-effective or a useful solution. However, these organizations believe not that a common ERP, or a common payroll, is not useful, but only that the Joint Inspection Unit has not presented the business case for the extensive re-engineering required by such a system.

12. All organizations believe that a more productive approach would entail ascertaining whether implementing a common ERP would achieve any savings across the system by developing a stronger business case, as well as determining whether a common payroll was the most effective initial step.

13. Almost all organizations of the system support part (b) of recommendation 1, principally because it recognizes the importance of the highest-level commitment by organizations of the system for making any progress on a function as critical as that performed by common administrative systems. As noted, members of the Chief Executives Board for Coordination support the concept of a common ERP and payroll, provided that this offers a cost-effective alternative to their existing capabilities, as well as recognizes the significant existing investment by many organizations.

Recommendation 2

The Secretary-General, in his capacity as Chairman of the Chief Executives Board for Coordination, should invite the Chief Executives Board to:

(a) **Establish "leader" organizations or common service entities, which can provide payroll services, on a fee or other financial basis, to those agencies that have old and antiquated systems;**

(b) **Harmonize, simplify and standardize the application across the United Nations system of the common staff rules and regulations relating to payroll and allowances;**

(c) **Report back to the General Assembly on the implementation status of this recommendation at its sixty-second session.**

14. Members of the Chief Executives Board for Coordination generally support part (a) of recommendation 2, and note that some organizations have already taken the step described therein, albeit in a limited fashion. In particular, the United Nations Secretariat already performs this function for many smaller organizations. All organizations expressed a willingness to explore the concept of "leader" organizations and expressed the hope that this would lead to a restriction of the number of payroll systems used to one version of each major payroll system. As several organizations making use of the same ERP software are currently in the initial stage of designing payroll solutions and customizations, a high-level commitment to sharing resources and investments must be encouraged.

15. All organizations strongly support part (b) of recommendation 2, particularly since accomplishment of the actions described in this recommendation forms the necessary precondition for any exploration of consolidating information systems that process payroll.

16. Finally, it is the intention of the system to look at this issue in its entirety, including recommendation 2, through the Finance and Budget, Human Resources and Information and Communication Technologies (ICT) Networks of the High-level Committee on Management, with a view to submitting a recommendation to the Chief Executives Board for Coordination and a subsequent report to the General Assembly, as requested.